

CITY OF SWISHER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2014

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CITY OF SWISHER

OFFICIALS

| <u>Name</u> | <u>Title</u> (Before January, 2014) | <u>Term Expires</u> |
|------------------------|--|---------------------------|
| Tim Mason | Mayor | Resigned Nov. 11, 2013 |
| Mary Gudenkauf | Mayor Pro tem | Jan. 2016 |
| Angie Hinrichs | Council Member | Jan. 2014 |
| Larry Svac | Council Member | Jan. 2014 |
| Michael Stagg | Council Member | Jan. 2016 |
| Sandra Fults | Council Member | Jan. 2016 |
| Connie Meier | City Clerk | Resigned Nov. 11, 2013 |
| Phyllis Collins | Treasurer | Indefinite |
| Robert Michael | Attorney | Indefinite |
| (After December, 2013) | | |
| Christopher Taylor | Mayor (Elected Feb. 4, 2014) | Jan. 2016 |
| Sandra Fults | Mayor Pro tem | Jan. 2016 |
| Mary Gudenkauf | Council Member | Jan. 2016 |
| Michael Stagg | Council Member | Jan. 2016 |
| Angie Hinrichs | Council Member | Jan. 2018 |
| Larry Svac | Council Member | Jan. 2018 |
| Tawnia Kakacek | City Clerk (Started Jan. 20, 2014) | Indefinite |
| Phyllis Collins | Treasurer | Indefinite |
| Robert Michael | Attorney | Replaced May 12, 2014 |
| Mark Parmenter | Attorney (Appointed May 12, 2014) | Indefinite |

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Swisher, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net position and by fund of the cash balances at July 1, 2013.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinions” paragraph, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Swisher as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Swisher’s basic financial. The supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 13 and 28 through 29, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2014 on our consideration of the City of Swisher's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Swisher's internal control over financial reporting and compliance.

Elkader, Iowa

October 15, 2014


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of Swisher
66 Second Street SW
P.O. Box 279
Swisher, IA 52338-0279
Phone: (319) 857-4539
Fax: (319) 857-4529
www.swisheria.org

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Swisher provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data have been provided if available.

2014 FINANCIAL HIGHLIGHTS

The cash basis net position for the governmental activities increased \$ 59,989, or 8.7% to \$ 745,811 for the fiscal year ended June 30, 2014, due primarily to increases in the Debt Service Fund.

The cash basis net position for the business type activities decreased \$ 88,927 or 24.7% to \$ 270,536 from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements

report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, [c] the Debt Service Fund, and [d] the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains one Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statement for the proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$ 685,822 to \$ 745,811. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

| | Year Ended June 30, 2014 |
|------------------------------------|-----------------------------|
| Receipts: | |
| Program receipts: | |
| Charges for service | \$ 63 |
| Operating grants and contributions | 106 |

| | |
|--|---------------|
| General Receipts: | |
| Property tax and other city tax | 421 |
| Local option sales tax | 23 |
| Unrestricted interest on investments | 2 |
| Other general receipts | <u>1</u> |
| Total receipts | <u>616</u> |
| Disbursements: | |
| Public safety | 70 |
| Public works | 163 |
| Culture and recreation | 39 |
| Community and economic development | 38 |
| General government | 83 |
| Debt service | <u>311</u> |
| Total disbursements | <u>704</u> |
| Change in cash basis net position before transfers | (88) |
| Transfers, net | <u>148</u> |
| Change in cash basis net position | 60 |
| Cash basis net position beginning of year | <u>686</u> |
| Cash basis net position end of year | <u>\$ 746</u> |

The cash basis net position for the City's governmental activities increased approximately \$ 60,000 due primarily to increases in the Debt Service Fund.

The cost of all governmental activities was approximately \$ 704,000. However, as shown in the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was only \$ 535,000 because some of the cost was paid by those directly benefited from the programs (approximately \$ 63,000) or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$ 106,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 444,000 of taxes (some of which could only be used for certain programs) and with other receipts, such as interest and transfers from the Enterprise, Sewer Fund.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

| | Year Ended <u>June 30, 2014</u> |
|---|------------------------------------|
| Receipts | |
| Program receipts: | |
| Charges for service: | |
| Sewer | \$ 138 |
| Disbursements | |
| Sewer | <u>79</u> |
| Change in cash basis net position, before transfers | 59 |
| Transfers, net | <u>(148)</u> |
| Change in cash basis net position | (89) |
| Cash basis net position beginning of year | <u>360</u> |
| Cash basis net position end of year | <u>\$ 271</u> |

The cash balance decreased approximately \$ 89,000 from the prior year due primarily to debt service requirements of approximately \$ 148,000

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Swisher completed the year, its governmental funds reported a combined fund balance of \$ 745,811, an increase of \$ 59,989 from last year's total of \$ 685,822. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 7,361 from the prior year to \$ 658,618. The City received three unanticipated payments for local option sales tax totaling \$ 22,695.

The Special Revenue, Road Use Tax Fund cash balance increased \$ 3,715 to \$ 132,285. The City intends to use these funds to improve the condition of city streets.

The Special Revenue, Urban Renewal Tax Increment Fund decreased \$ 246,657 to a deficit balance of \$ 48,583. The decrease was the result of retiring \$ 220,000 of Urban Renewal bonds and correcting the Debt Service Fund deficit.

The Debt Service Fund cash balance increased \$ 295,068 to a balance of \$ 0. Bond principal and interest payments were \$ 311,363 for the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance decreased \$ 88,927 to \$ 270,536, due primarily to transferring \$ 148,056 to the Debt Service Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved on May 12, 2014 and resulted in an increase in operating disbursements of \$ 106,775, related primarily to the resignation of the City Clerk.

The City receipts were \$ 1,885 less than budgeted.

Total disbursements were \$ 79,722 less than budgeted. Actual disbursements for the public works and general government functions were \$ 27,789 and \$ 25,466, respectively, less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$ 1,622,000 of bonds outstanding as compared to \$ 1,890,000 last year, as shown below.

| | <u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u> | |
|--------------------------|--|--------------|
| | <u>June 30,</u> | |
| | <u>2014</u> | <u>2013</u> |
| General obligation bonds | \$ 605 | 825 |
| Revenue bonds | <u>1,017</u> | <u>1,065</u> |
| Total | <u>\$ 1,622</u> | <u>1,890</u> |

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 605,000 is less than its constitutional debt limit of nearly \$ 2.8 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Swisher's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees that will be charged for various City activities. The City's population was 879 in 2010 compared to 813 in 2000 and 607 in 1970. The current upward trend is expected to continue. Taxable valuations rose 0.3% in the last year.

These indicators were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are \$ 902,000, an increase of 19.2% from the amended 2014 budget. Budgeted disbursements are expected to increase by approximately \$ 273,000.

If these estimates are realized, the City's budgeted cash balance is expected to remain unchanged.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Tawnia Kakacek, City Clerk; 66 2nd St SW; Swisher, Iowa 52338.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF SNISHER
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
Year Ended June 30, 2014

| PROGRAM/FUNCTION: | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|---|---------------|---------------------|------------------------------------|---|--------------------------|-----------|
| | | Charges for Service | Operating Grants and Contributions | Governmental Activities | Business Type Activities | Total |
| Governmental activities: | | | | | | |
| Public safety | \$ 70,181 | 3,000 | - | (67,181) | - | (67,181) |
| Public works | 163,439 | 49,078 | 87,771 | (26,590) | - | (26,590) |
| Culture and recreation | 38,486 | 8,503 | 18,581 | (11,402) | - | (11,402) |
| Community and economic development | 37,790 | - | - | (37,790) | - | (37,790) |
| General government | 83,205 | 2,105 | - | (81,100) | - | (81,100) |
| Debt service | 311,363 | - | - | (311,363) | - | (311,363) |
| Total governmental activities | 704,464 | 62,686 | 106,352 | (535,426) | - | (535,426) |
| Business type activities: | | | | | | |
| Sewer | 78,932 | 137,839 | - | - | 58,907 | 58,907 |
| Total | \$ 783,396 | 200,525 | 106,352 | (535,426) | 58,907 | (476,519) |
| GENERAL RECEIPTS AND TRANSFERS | | | | | | |
| Property tax and other city tax levied for: | | | | | | |
| General purposes | | | | 209,892 | - | 209,892 |
| Tax increment financing | | | | 211,665 | - | 211,665 |
| Local option sales tax | | | | 22,695 | - | 22,695 |
| Unrestricted interest on investments | | | | 2,401 | 222 | 2,623 |
| Miscellaneous | | | | 706 | - | 706 |
| Transfers | | | | 148,056 | (148,056) | - |
| TOTAL GENERAL RECEIPTS AND TRANSFERS | | | | 595,415 | (147,834) | 447,581 |
| Change in cash basis net position | | | | 59,989 | (88,927) | (28,938) |
| Cash basis net position beginning of year | | | | 685,822 | 359,463 | 1,045,285 |
| Cash basis net position end of year | | | | \$ 745,811 | 270,536 | 1,016,347 |
| Cash Basis Net Position | | | | | | |
| Restricted: | | | | | | |
| Non-expendable, park | | | | \$ 3,491 | - | 3,491 |
| Expendable: | | | | | | |
| Streets and improvements | | | | 247,360 | - | 247,360 |
| Streets | | | | 132,285 | - | 132,285 |
| Unrestricted | | | | 362,675 | 270,536 | 633,211 |
| | | | | \$ 745,811 | 270,536 | 1,016,347 |

See notes to financial statements.

Exhibit B

CITY OF SWISHER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2014

| | Special Revenue | | | | Nonmajor | | Total |
|--|-----------------|---------------|-----------------------------|----------------|----------------|----------|----------------|
| | General | Road Use Tax | Urban Renewal Tax Increment | Debt Service | Permanent Park | | |
| RECEIPTS: | | | | | | | |
| Property tax | \$ 194,779 | - | - | - | - | - | 194,779 |
| Tax increment financing | - | - | 211,665 | - | - | - | 211,665 |
| Other city tax | 37,809 | - | - | - | - | - | 37,809 |
| Licenses and permits | 1,645 | - | - | - | - | - | 1,645 |
| Use of money and property | 2,346 | - | 53 | - | 502 | - | 2,901 |
| Intergovernmental | 23,481 | 87,771 | - | - | - | - | 111,252 |
| Charges for service | 48,471 | - | - | - | - | - | 48,471 |
| Miscellaneous | 7,875 | - | - | - | - | - | 7,875 |
| Total receipts | 316,406 | 87,771 | 211,718 | - | 502 | - | 616,397 |
| DISBURSEMENTS: | | | | | | | |
| Operating disbursements: | | | | | | | |
| Public safety | 70,181 | - | - | - | - | - | 70,181 |
| Public works | 79,383 | 84,056 | - | - | - | - | 163,439 |
| Culture and recreation | 38,486 | - | - | - | - | - | 38,486 |
| Community and economic development | 37,790 | - | - | - | - | - | 37,790 |
| General government | 83,205 | - | - | - | - | - | 83,205 |
| Debt service | - | - | - | 311,363 | - | - | 311,363 |
| Total disbursements | 309,045 | 84,056 | - | 311,363 | - | - | 704,464 |
| Excess (deficiency) of receipts over (under) disbursements | 7,361 | 3,715 | 211,718 | (311,363) | 502 | (88,067) | |
| Other financing sources (uses): | | | | | | | |
| Operating transfers in | - | - | - | 606,431 | - | - | 606,431 |
| Operating transfers out | - | - | (458,375) | - | - | - | (458,375) |
| Total other financing sources (uses) | - | - | (458,375) | 606,431 | - | - | 148,056 |
| Change in cash balances | 7,361 | 3,715 | (246,657) | 295,068 | 502 | 59,989 | |
| Cash balances beginning of year | 651,257 | 128,570 | 198,074 | (295,068) | 2,989 | 685,822 | |
| Cash balances end of year | \$ 658,618 | 132,285 | (48,583) | - | 3,491 | 745,811 | |

(continued)

Exhibit B
(continued)

CITY OF SWISHER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2014

| | Special Revenue | | | Nonmajor | |
|-----------------------------------|-----------------|-----------------------------|--------------|----------------|---------|
| | Road Use Tax | Urban Renewal Tax Increment | Debt Service | Permanent Park | Total |
| Cash Basis Fund Balances: | | | | | |
| Nonspendable, park | \$ - | - | - | 3,491 | 3,491 |
| Restricted for: | | | | | |
| Streets and improvements | 247,360 | - | - | - | 247,360 |
| Streets | - | 132,285 | - | - | 132,285 |
| Assigned for: | | | | | |
| City vehicles | 15,000 | - | - | - | 15,000 |
| Streets | 10,000 | - | - | - | 10,000 |
| Shop equipment and improvements | 3,500 | - | - | - | 3,500 |
| Park equipment | 6,000 | - | - | - | 6,000 |
| Office equipment and improvements | 8,500 | - | - | - | 8,500 |
| Library | 1,320 | - | - | - | 1,320 |
| Unassigned | 366,938 | - | - | - | 318,355 |
| Total cash basis fund balances | \$ 658,618 | 132,285 | (48,583) | - | 745,811 |

See notes to financial statements.

CITY OF SWISHER
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCE
 PROPRIETARY FUND
 Year Ended June 30, 2014

| | <u>Enterprise</u> |
|--|--------------------------|
| | <u>Sewer</u> |
| Operating receipts: | |
| Charges for service | \$ 137,839 |
| Operating disbursements: | |
| Business type activities | <u>78,932</u> |
| Excess of operating receipts over operating disbursements | 58,907 |
| Non-operating receipts: | |
| Interest on investments | <u>222</u> |
| Excess of receipts over disbursements | 59,129 |
| Transfers out | <u>(148,056)</u> |
| Change in cash balances | (88,927) |
| Cash balances beginning of year | <u>359,463</u> |
| Cash balances end of year | <u><u>\$ 270,536</u></u> |
| Cash Basis Fund Balance: | |
| Unrestricted | <u><u>\$ 270,536</u></u> |

See notes to financial statements.

CITY OF SWISHER

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Swisher is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1903 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Swisher has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Johnson County Assessor's Conference Board, Johnson County Joint E911 Service Board, Metropolitan Planning Organization of Johnson County, and East Central Iowa Council of Governments.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For

the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net positions.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements. The remaining governmental fund is reported as a nonmajor fund.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of principal and interest on the City's long-term general debt.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | | Total | |
|----------------------------|-----------------------------|----------|---------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ 220,000 | 6,250 | 50,000 | 30,510 | 270,000 | 36,760 |
| 2016 | 225,000 | 4,050 | 51,000 | 29,010 | 276,000 | 33,060 |
| 2017 | 180,000 | 1,800 | 53,000 | 27,480 | 233,000 | 29,280 |
| 2018 | - | - | 54,000 | 25,890 | 54,000 | 25,890 |
| 2019 | - | - | 56,000 | 24,270 | 56,000 | 24,270 |
| 2020-24 | - | - | 310,000 | 94,950 | 310,000 | 94,950 |
| 2025-29 | - | - | 363,000 | 45,360 | 363,000 | 45,360 |
| 2030 | - | - | 80,000 | 2,400 | 80,000 | 2,400 |
| Total | \$ 625,000 | 12,100 | 1,017,000 | 279,870 | 1,642,000 | 291,970 |

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$ 1,200,000 of sewer revenue bonds issued in November, 2009 with interest at 3% per annum. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding balance. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the bonds is \$ 1,296,870. For the current year, principal and interest paid and total customer net receipts were \$ 79,950 and \$ 58,907, respectively.

The resolution providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Enterprise, Sewer Fund and the bond holders hold a lien on the future earnings of the funds.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the Enterprise, Sewer Fund and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; PO Box 9117; Des Moines, Iowa 50306-9117

Regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014 was \$ 5,871, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is \$ 1,100.

This liability has been computed based on rates of pay in effect at June 30, 2014.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014, is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|-------------------|
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax | |
| | Increment | \$ 458,375 |
| | Enterprise: | |
| | Sewer | <u>148,056</u> |
| Total | | <u>\$ 606,431</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$ 6,534.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$ 350,000 per claim. Claims exceeding \$ 350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$ 150,000 each occurrence, each location. Property risks exceeding \$ 150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-

sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

(8) Deficit Balance

The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$ 48,583 at June 30, 2014. The deficit balance was a result of debt service requirements exceeding urban renewal tax increment financing receipts in prior years. The deficit will be eliminated with future urban renewal tax increment receipts.

(9) Subsequent Events

In August, 2014, the City entered into a soil remediation contract for \$ 145,596 to be 100% financed by a state grant. The City also entered into a construction contract for \$ 23,000 for a street project to be financed from road use tax receipts.

(10) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. This statement will be implemented for the fiscal year ended June 30, 2015. The revised requirements establish new reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

OTHER INFORMATION

CITY OF SWISHER
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
OTHER INFORMATION
Year Ended June 30, 2014

| | Governmental Funds Actual | Proprietary Fund Actual | Total | Budgeted Amounts | | Final Total Variance |
|---|---------------------------------|-------------------------------|-----------|------------------|-----------|----------------------------|
| | | | | Original | Final | |
| Receipts: | | | | | | |
| Property tax | \$ 194,779 | - | 194,779 | 189,040 | 189,040 | 5,739 |
| Tax increment financing | 211,665 | - | 211,665 | 232,041 | 232,041 | (20,376) |
| Other city tax | 37,809 | - | 37,809 | 2,952 | 2,952 | 34,857 |
| Licenses and permits | 1,645 | - | 1,645 | 1,670 | 1,670 | (25) |
| Use of money and property | 2,901 | 222 | 3,123 | 2,777 | 2,777 | 346 |
| Intergovernmental | 111,252 | - | 111,252 | 121,263 | 121,263 | (10,011) |
| Charges for service | 48,471 | 137,839 | 186,310 | 199,000 | 199,000 | (12,690) |
| Miscellaneous | 7,875 | - | 7,875 | 7,600 | 7,600 | 275 |
| Total receipts | 616,397 | 138,061 | 754,458 | 756,343 | 756,343 | (1,885) |
| Disbursements: | | | | | | |
| Public safety | 70,181 | - | 70,181 | 71,400 | 71,400 | 1,219 |
| Public works | 163,439 | - | 163,439 | 176,578 | 191,228 | 27,789 |
| Culture and recreation | 38,486 | - | 38,486 | 44,277 | 44,461 | 5,791 |
| Community and economic development | 37,790 | - | 37,790 | 29,461 | 108,671 | 6,671 |
| General government | 83,205 | - | 83,205 | 56,171 | 316,363 | 25,466 |
| Debt service | 311,363 | - | 311,363 | 316,363 | 86,718 | 5,000 |
| Business type activities | - | 78,932 | 78,932 | 62,093 | 86,718 | 7,786 |
| Total disbursements | 704,464 | 78,932 | 783,396 | 756,343 | 863,118 | 79,722 |
| Excess (deficiency) of receipts over (under) disbursements | (88,067) | 59,129 | (28,938) | - | (106,775) | 77,837 |
| Other financing sources (uses) | 148,056 | (148,056) | - | - | - | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 59,989 | (88,927) | (28,938) | - | (106,775) | 77,837 |
| Beginning fund balance | 685,822 | 359,463 | 1,045,285 | 1,011,901 | 1,011,901 | 33,384 |
| Ending fund balance | \$ 745,811 | 270,536 | 1,016,347 | 1,011,901 | 905,126 | 111,221 |

See accompanying independent auditor's report and notes to other information-
budgetary reporting.

CITY OF SWISHER

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2014, one budget amendment increased budgeted disbursements \$ 106,775. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF SWISHER
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2014

Schedule 1

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---|---------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|---------------|
| General obligation bond: Refunding bonds | Jan 1, 2013 | 1.00% | \$ 1,050,000 | 825,000 | - | 220,000 | 605,000 | 8,250 |
| Revenue bonds: Sewer | Nov 12, 2009 | 3.00% | \$ 1,200,000 | 1,065,000 | - | 48,000 | 1,017,000 | 31,950 |

See accompanying independent auditor's report.

CITY OF SWISHER
BOND MATURITIES
June 30, 2014

| Year Ended June 30, | General Obligation | | Revenue | |
|---------------------------|--------------------|-------------------|---------------------|---------------------|
| | Refunding | | Sewer | |
| | Issued Jan 1, 2013 | | Issued Nov 12, 2009 | |
| | Interest | | Interest | |
| | Rate | Amount | Rate | Amount |
| 2015 | 1.00% | \$ 220,000 | 3.00% | \$ 50,000 |
| 2016 | 1.00 | 225,000 | 3.00 | 51,000 |
| 2017 | 1.00 | 180,000 | 3.00 | 53,000 |
| 2018 | | - | 3.00 | 54,000 |
| 2019 | | - | 3.00 | 56,000 |
| 2020 | | - | 3.00 | 58,000 |
| 2021 | | - | 3.00 | 60,000 |
| 2022 | | - | 3.00 | 62,000 |
| 2023 | | - | 3.00 | 64,000 |
| 2024 | | - | 3.00 | 66,000 |
| 2025 | | - | 3.00 | 68,000 |
| 2026 | | - | 3.00 | 70,000 |
| 2027 | | - | 3.00 | 73,000 |
| 2028 | | - | 3.00 | 75,000 |
| 2029 | | - | 3.00 | 77,000 |
| 2030 | | - | 3.00 | 80,000 |
| Total | | <u>\$ 625,000</u> | | <u>\$ 1,017,000</u> |

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Swisher, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2014. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Swisher's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Swisher's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Swisher's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Swisher's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Swisher's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Swisher's Responses to Findings

The City of Swisher's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Swisher's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Swisher during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

October 15, 2014



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF SWISHER
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. For instance, a City official could receive and then review bank statements before giving them to the individual responsible for account reconciliations.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF SWISHER
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 Certified Budget - Disbursements for the year ended June 30, 2014 did not exceed the amount budgeted.
- II-B-14 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-14 Business Transactions - No business transactions between the City and City officials were noted.
- II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Although nearly all minutes of City Council proceedings were published, the minutes were not published during the period when the City was without a Clerk.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response - All minutes will be published in the future as required.

Conclusion - Response accepted.

- II-G-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF SWISHER
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

- II-H-14 Revenue Bonds - The City's sewer revenue bond resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City's fiscal year 2014 net sewer receipts of \$ 58,907 were less than 110% of the \$ 79,950 of sewer revenue bond principal and interest due during fiscal 2014.

Recommendation - The City should review its sewer rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments during the fiscal year.

Response - The City Council is currently exploring several options to resolve this issue.

Conclusion - Response accepted.

- II-I-14 Financial Condition - The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$ 48,583 at June 30, 2014.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - Future urban renewal tax increment financing collections will eliminate this deficit.

Conclusion - Response accepted.

- II-J-14 Annual Urban Renewal Report - The annual urban renewal report was approved but not certified to the Iowa Department of Management on or before December 1. The report was filed on December 14, 2013.

Recommendation - The City should file annual urban renewal report timely.

Response - This will be done in the future.

Conclusion - Response accepted.

CITY OF SWISHER
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

II-K-14 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of each cancelled check.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response - We will contact the bank to see if this is possible.

Conclusion - Response accepted.